DRAFT

POLICY STATEMENT

"ONE MAINE ONE SYSTEM"

June 2009

CAPITAL IMPROVEMENT PLANNING

FOR

COUNTY CORRECTIONAL FACILITIES IN MAINE

Purpose

The Capital Improvement Program (CIP) provides a basis for prioritizing and implementing the short and long range plans for property improvement projects. The CIP is intended to be a planning, scheduling and priority setting process for the county correctional facility over a ten year period. Planning for future maintenance and infrastructure improvements offers predictability during the budget process.

All requests will be evaluated and assessed to achieve a schedule that will first address critical safety issues, efficiencies, and prevent infrastructure deterioration. The county executive department will work with the county correctional facility to plan, schedule and prioritize the facilities' capital projects. The annual CIP recommendations will be presented to the county commissioners for their approval and forwarded to the Board of Corrections for presentation and final approval on an annual basis.

After the budget is approved CIP funds will be maintained as dedicated fund accounts within the jail's financial statements by the county treasurer's office.

It is important to note that the CIP is a recommended plan. Priorities may and will change as critical safety, ADA, technology, and infrastructure needs arise. Capital funds may be realigned by the county commissioners and the Board of Corrections to reflect the most urgent capital needs each year and unexpended funds from a completed project may be re-allocated to another planned project.

Expected Benefits

- Large expenditures can be anticipated in advance rather than being put off until the need becomes critical or an emergency.
- Project coordination may reduce costs through combining projects to increase competitive pricing.
- Projects can be assessed based on their need for employee and public safety, occupational health, vital document preservation, infrastructure improvement, ADA.
- Critical infrastructure projects should be planned to extend the life span of existing facilities.

CAPITAL REPLACEMENT PLANNING

All counties and regional jail authorities shall have a ten-year capital improvement plan that focuses on maintaining the physical plant and upgrading systems in order to ensure the safety and security of the facility.

Counties and regional authorities should identify mechanical systems, structural areas and technologies with predictable life spans and prepare estimates for the cost of a scheduled replacement.

Counties and regional authorities should prepare estimates for the on-going cost of rotational replacement for those items with a predictable lifespan i.e. HVAC components, roofs, boilers, computers, software, radios, and vehicles. Counties and regional authorities should avoid circumstances where entire collections require replacement at once. Counties and regional authorities must coordinate the purchases of collections to realize savings through group purchasing.

One of the goals of capital purchasing in the unified correctional system shall be the compatibility of systems as they are upgraded.

Planned capital improvement spending is intended to anticipate the need for the replacement of systems and collections necessary for the safe and efficient operation of the correctional facility. Planning for these replacements should avoid most instances where system failure requires an unexpected or unplanned replacement.

The county commissioners shall adopt a recommended capital plan to be forwarded to the Board of Corrections for approval.

FUNDING

Counties and regional authorities with fund balances at the end of the corrections fiscal year must first apply those funds to a capital improvement program with identified projects that have cost estimates and schedules in place.

Capital funds from the corrections fund balance must only be used for direct corrections related expenses. These funds must be accounted for separately in the corrections capital improvement account. Funds may not be transferred from this account for non-correctional activities. Funds from this account may be used for systems jointly serving correctional and non-correctional functions but only in proportion to the corrections related use of that improvement i.e. shared heating systems, shared software.

Counties without sufficient funds in their capital improvement program may submit a funding proposal to the Board of Corrections to meet unanticipated emergency needs.

FUND BALANCE

For correctional services planning:

Fund balances accrued through savings achieved through a Board of Corrections initiative must be forwarded to the Board of Corrections investment fund.

Fund balances accrued through savings achieved through a county initiative or action shall remain with the county's corrections fund balance.

Designated Fund Balance (Capital Projects) : Designated Fund Balance are those (capital projects) funds reserved a specific purpose. For example, for scheduled projects needed to maintain the mechanical systems, structural integrity, collections and technology upgrades of the correctional facility.

These capital reserves are that portion of the fund balance segregated for a specific future use.

Undesignated Fund Balance: Undesignated Fund Balance are those funds unexpended at the end of the fiscal year and any revenues in excess of estimates.

What is Capital and How should it be Treated?
Considerations for Managing Capital in Maine County Jails
(Excerpts from the State Capital Guidelines – 30.20)

How to value capital assets

Capital assets should be valued at cost, plus all ancillary charges necessary to place the asset in its intended location and condition for use.

Determine the value of capital assets in the following manner:

- Purchased Assets - Use historical costs including all non-refundable purchase taxes (e.g., sales taxes), plus all appropriate ancillary costs less any trade discounts or rebates. If the historical cost cannot be determined, use a reasonable estimated cost.
- Furniture, fixtures, or other equipment not an integral part of a building are not considered capital improvements and should be classified as equipment. The cost for this asset type reflects the actual or estimated cost of the asset.
- Include the cost of extended maintenance/warranty contracts in the asset valuation if the contract is purchased at the same time (or soon thereafter) as the capital asset. Depreciate these contracts over the useful life of the asset. Do not capitalize payments for contracts not purchased at the same time as the capital asset.

Self-Constructed Assets, excluding internally developed computer software

- Capitalize all direct costs associated with the construction and agency management costs associated with a construction project. Agency project management costs may be capitalized in one of two ways:
  1. Use actual project management costs directly associated with the project; or
  2. Apply a percentage of total budgeted project costs. The application rate may or may not be designed to recover total agency project management costs. Exclude indirect costs unless they are increased by the construction.

Ancillary Costs

- Normally, ancillary costs should be included in the cost of a capital asset. However, minor ancillary costs, not measurable at the time a capital asset is recorded are not required to be capitalized but may be capitalized if the information becomes readily available.
- Ancillary costs include such items as:
  - For land and Infrastructure:
    - Legal and title fees;
    - Professional fees of engineers, attorneys, appraisers, financial advisors, etc.;
    - Surveying fees;
    - Appraisal and negotiation fees;
    - Damage payments;
    - Site preparation costs; and
    - Costs related to demolition of unwanted structures.
  - For buildings and improvements other than buildings:
    - Professional fees of architects, engineers, attorneys, appraisers, financial advisors, etc.;
    - Damage payments;
    - Costs of fixtures permanently attached to a building or structure;
    - Insurance premiums, interest (refer to Subsection 30.20.10.a), and related costs incurred during construction; and
    - Any other costs necessary to place a building or structure into its intended location and condition for use.
  - For furnishings, equipment, collections, and other capital assets:
    - Transportation charges;
    - Sales tax;

        - Installation costs;
        - Extended maintenance/warranty contracts (refer to Subsection 30.20.10.a); and
        - Any other normal or necessary costs required to place the asset in its intended location and condition for use.

- When to capitalize assets:
    - Assets shall be capitalized according to the following thresholds:
        - All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, or collections with a total cost of $5,000 or greater, unless otherwise noted.
    - Although ***small and attractive assets*** do not meet the capitalization policy above, they are considered **controllable property** for purposes of marking and identifying.
        - Each agency should perform a risk assessment (both financial and operational) on the agency's assets to identify those assets that are particularly at risk or vulnerable to loss. Assets so identified, that fall below the capital threshold, are considered small and attractive assets. Each agency should develop written internal policies for controlling small and attractive assets.
        - The agency should implement specific measures to control small and attractive assets in order to minimize identified risks. Periodically, the agency should perform a follow-up risk assessment to determine if the additional controls implemented are effective in managing the identified risks.
        - Small and attractive assets would include:
            - Communications Equipment, Public Safety: Audio and Video;
            - Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Rangefinders;
            - Cameras and Photographic Projection Equipment;
            - Microcomputer Systems, Laptop and Notebook Computers;
            - Other IT Accessorial Equipment and Components (Scanners, Data Displays, etc.);
            - Office Equipment;
            - Record Players, Radios, Television Sets, Tape Recorders, VCRs, and Video Cameras.

- Extraordinary repairs, betterments, or improvements
    - Capitalize outlays that increase future benefits for an existing capital asset beyond its previously assessed standard of performance
    - Increased future benefits typically include:
        - An extension in the estimated useful life of the asset.
        - An increase in the capacity or efficiency of an existing capital asset.
        - A substantial improvement in the quality of output or a reduction in previously assessed operating costs.

- Replacements
    - For buildings, improvements other than buildings, and equipment, capitalize the cost of outlays that replace a part of another capital asset when the cost of the replacement is $5,000

- Renovations – Capitalization Threshold for Renovations

- A renovation enhances an already existing asset to a condition beyond that which results from normal maintenance repairs, and/or increases the useful life of the asset. Replacing a roof, or installing a better electrical system in a building, are examples of renovations.

➢ Capital leases
  - A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in the ownership of property to the agency. A lease must meet one or more of the following four criteria to qualify as a capital lease:
  1. Ownership of the leased property is transferred to the agency by the end of the lease term; or\
  2. The lease contains a bargain purchase option

➢ Depreciation
  - Depreciation normally begins when an asset is purchased or completed, and accepted. However, if an asset is not placed into service immediately, depreciation should begin when the asset begins to lose value. Either option should be applied consistently and should be reasonable in the circumstance.
  - Depreciation may be calculated using either the straight-line or composite method.
  - To calculate depreciation using the straight-line method:

$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Asset Useful Life}}$$

➢ Useful Life for Capital Assets
  - Agencies should use the following recommended guide for assigning a useful life to an asset. However, different lives may be used if an agency has a compelling reason and the life assigned to an asset can be justified by historical experience.
    - 2-5 year property — includes computers and peripheral equipment, and computer software designed to cause a computer to perform a desired function;
    - 5 year property — includes office machinery, automobiles, light and heavy general purpose trucks;
    - 7 year property — includes office furniture and fixtures, agricultural machinery and equipment;
    - 10 year property — includes building improvements such as a new roof, plumbing and electrical renovations, vessels and water transportation equipment;
    - 15 year property — includes land improvements
    - 30-50 year property — includes residential and nonresidential real property such as buildings
    - A more comprehensive list can be found in IRS Publication 946, "How to Depreciate Property."